

CHARLEVOIX COUNTY PUBLIC TRANSIT
REPORT ON FINANCIAL STATEMENTS
(with supplemental information)
YEARS ENDED SEPTEMBER 30, 2005 AND 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Charlevoix County Public Transit	County Charlevoix
Audit Date 9/30/05	Opinion Date 11/28/05	Date Accountant Report Submitted to State: 1/8/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

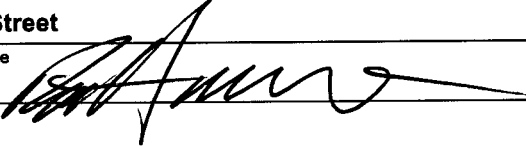
Certified Public Accountant (Firm Name) Harris Group, Certified Public Accountants			
Street Address 1107 E. 8th Street	City Traverse City	State MI	ZIP 49686
Accountant Signature 		Date 1/8/06	

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**CHARLEVOIX COUNTY PUBLIC TRANSIT
COMMITTEE MEMBERS
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

Henry Erber, Chairperson

W. Randolph Frykberg, Vice-chairperson

Jane Brannon, Secretary



HARRIS GROUP

Certified Public Accountants

Independent Auditor's Report

To the Transit Committee
Charlevoix County Public Transit

We have audited the accompanying financial statements of the Charlevoix County Public Transit of Charlevoix County, as of and for the years ended September 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of Charlevoix County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Charlevoix County Public Transit and do not purport to, and do not present fairly the financial position of Charlevoix County, and the changes in financial position and cash flows, where applicable for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Charlevoix County Public Transit of Charlevoix County, as of September 30, 2005 and 2004, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2005, on our consideration of Charlevoix County Public Transit's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Harris Group

November 28, 2005

**Charlevoix County Public Transit
Management Discussion and Analysis
For the year ended September 30, 2005**

This section of Charlevoix County Public Transit's annual financial report presents its discussion and analysis of the Public Transit's financial performance during the fiscal years ending September 30, 2005 and 2004.

Financial Highlights

- The Public Transit's financial status increased slightly. Total net assets increased less than 1.0% percent over the course of the year.
- Overall revenues were \$1,255,467, which included \$757,378 from operating grants.
- State operation funding decreased 8.9% from the prior year to 38.44% of eligible expenses.
- Federal operation funding increased to 12.4% from 10.95% in the prior year.
- The State reconciled open years of funding that resulted in an increase of \$182,457 in revenue.
- Transit ridership decreased 2.8% from the prior year.
- The Public Transit's tax base increased by 15.0%.

Overview of the Financial Statements

The Charlevoix County Public Transit is a fund of Charlevoix County. Its operations are funded primarily by property tax revenues, operating grants from Federal and State agencies and fare box fees. The Public Transit has the capability and the authority to provide public transportation to the general public in Charlevoix County. The activities of the Public Transit are governed by a committee appointed by the Charlevoix County Board of Commissioners.

This annual report consists of two parts: management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include both *short-term* and *long-term* information about the Public Transit's *overall* financial status.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Public Transit's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Charlevoix County Public Transit Basic Financial Statements

The Public Transit basic financial statements report information about the Public Transit using the full accrual method of accounting. The statement of net assets includes all of the Charlevoix County Public Transit's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

**Charlevoix County Public Transit
Management Discussion and Analysis
For the year ended September 30, 2005**

The Charlevoix County Public Transit basic financial statements report the Public Transit's *net assets* and how they have changed. Net assets-the difference between the Public Transit's assets and liabilities-is one way to measure the Public Transit's financial health or *position*.

- Over time, increases or decreases in the Public Transit's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the Public Transits overall health, you need to consider additional non-financial factors such as changes in the Public Transit's property tax base and the condition of buildings and other facilities.

Financial Analysis of the Charlevoix County Public Transit

Net assets. The Charlevoix County Public Transit's *combined* net assets were higher on September 30, 2005, than they were the year before, increasing .66% to \$1,456,501. Figure A-1 illustrates the valuation of net assets on September 30, 2005 and 2004.

Figure A-1

Condensed Statement of Net Assets

	<u>9/30/05</u>	<u>9/30/04</u>
Assets		
Current	\$ 939,653	\$ 716,089
Non-Current	622,880	827,914
	<u><u>\$ 1,562,533</u></u>	<u><u>\$ 1,544,003</u></u>
Liabilities		
Current	\$ 106,032	\$ 97,195
Net Assets		
Invested in Capital Assets	622,880	827,914
Unrestricted	833,621	618,894
	<u><u>1,456,501</u></u>	<u><u>1,446,808</u></u>
Liabilities and Net Assets	<u><u>\$ 1,562,533</u></u>	<u><u>\$ 1,544,003</u></u>

The Public Transit's financial position, in total, is unchanged from the prior year. State financing has decreased 8.9% and personnel expenses (salaries and related benefits) decreased 9.74%, based on staff cuts. The tax based increased 6.5%. The State of Michigan reconciled outstanding funding years and increased the amount due to Charlevoix Transit by \$182,457.

The ridership for Charlevoix County Public Transit decreased 2.8% from year ended September 30, 2005 compared to September 30, 2004. With total riders of 103,337 and 106,303 for the years ended September 30, 2005 and 2004, respectively.

Figure A-2 illustrates changes in net assets for operations as of September 30, 2005 and 2004.

**Charlevoix County Public Transit
Management Discussion and Analysis
For the year ended September 30, 2005**

Figure A-2

Changes in Net Assets from Operating Results

For the year ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues:		
Charges for Services	\$ 115,835	\$ 114,668
Operating Grants and Contributions	757,378	661,638
Local revenues	382,254	358,946
	<u>1,255,467</u>	<u>1,135,252</u>
Expenses:		
Operating expenses	<u>1,245,774</u>	<u>1,375,479</u>
CHANGE IN NET ASSETS	9,693	(240,227)
NET ASSETS, beginning of year	<u>1,446,808</u>	<u>1,687,035</u>
NET ASSETS, end of year	<u>\$ 1,456,501</u>	<u>\$ 1,446,808</u>

Capital Asset and Debt Administration

Capital Assets

By the end of 2005, the Public Transit had invested \$1,870,853 in vehicles, equipment and buildings. This amount is lower than the previous year due to the sale of two buses and a van. Total depreciation expense for the year exceeded \$205,000. Figure A-3 details the historical costs, accumulated depreciation, and book value of the Public Transit's capital assets.

**Charlevoix County Public Transit
Management Discussion and Analysis
For the year ended September 30, 2005**

Figure A-3

Statement of Capital Assets

	<u>Purchased with Public Transit Funds</u>	<u>Purchased with Capital Grants</u>	<u>Total</u>
September 30, 2005			
Buildings	\$ 196,334	\$ 460,039	\$ 656,373
Vehicles	112,694	864,145	976,839
Bus and garage equipment	65,190	132,070	197,260
Furniture, fixtures and equipment	<u>15,990</u>	<u>24,391</u>	<u>40,381</u>
	390,208	1,480,645	1,870,853
Less accumulated depreciation	<u>256,172</u>	<u>991,801</u>	<u>1,247,973</u>
Net Property and Equipment	<u><u>\$ 134,036</u></u>	<u><u>\$ 488,844</u></u>	<u><u>\$ 622,880</u></u>
September 30, 2004			
Buildings	\$ 196,334	\$ 460,039	\$ 656,373
Vehicles	138,145	902,146	1,040,291
Bus and garage equipment	65,190	132,070	197,260
Furniture, fixtures and equipment	<u>15,990</u>	<u>24,391</u>	<u>40,381</u>
	415,659	1,518,646	1,934,305
Less accumulated depreciation	<u>243,480</u>	<u>862,911</u>	<u>1,106,391</u>
Net Property and Equipment	<u><u>\$ 172,179</u></u>	<u><u>\$ 655,735</u></u>	<u><u>\$ 827,914</u></u>

**Charlevoix County Public Transit
Management Discussion and Analysis
For the year ended September 30, 2005**

Factors Bearing on the Public Transit's Future

At the time these financial statements were prepared and audited, the Public Transit was aware of the following circumstance that could significantly affect its financial health in the future:

- Federal Operating will increase from 12.4% to 15.0% of eligible operating expenses in 2006.
- State operating funds will increase from 38.43% to 39.25% of eligible expenses in 2006.
- The Public Transit has seen a large increase in property and casualty insurance coverage in the past two years. Charlevoix County Public Transit participates in the Michigan Transit Pool to save on vehicles insurance costs. Unfortunately, pool members must share the cost of large claims from the other members. In 2002 and 2004, there has been above average large claims that required retrospective billings to all members. These claims happen and cannot be predicted. Due to this, premiums cannot be stabilized to account for catastrophic claims. Since September 11th, excess insurance rates have soared. This has increased the rates MTP members pay since we purchase excess insurance for over \$1,000,000. To combat the increased excess insurance costs, the MTP now self insures for \$2,000,000 and purchases \$2,000,000 in excess insurance. The future risk shared losses increases since the MTP now carries the first \$2,000,000 in coverage. The Public Transit is not able to stabilize future premium costs due to the risk factor of all pool members.

Contacting the Public Transit's Financial Management

This financial report is designed to provide the Charlevoix County Public Transit's citizens, taxpayers, and customers with a general overview of the Public Transit's finances and to demonstrate the Public Transit's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Charlevoix County Public Transit Business, 1050 Brockway St., Boyne City, MI 49712.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004**

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash	\$ 538,053	\$ 470,825
Receivables:		
Accounts	5,970	9,420
Interest	2,949	2,949
Grants receivable from State	358,096	198,566
Inventories	29,859	29,473
Prepaid expenses	4,726	4,856
Total Current Assets	939,653	716,089
PROPERTY AND EQUIPMENT, less accumulated depreciation	622,880	827,914
TOTAL ASSETS	<u>\$ 1,562,533</u>	<u>\$ 1,544,003</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 53,340	\$ 10,658
Accrued expenses	3,549	8,015
Due to State	17,871	50,445
Accrued sick and vacation	31,272	28,077
Total Current Liabilities	106,032	97,195
NET ASSETS:		
Invested in capital assets	622,880	827,914
Retained earnings	833,621	618,894
Total Net Assets	1,456,501	1,446,808
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,562,533</u>	<u>\$ 1,544,003</u>

The accompanying notes are an integral part of this statement.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES	\$ 115,835	\$ 114,668
OPERATING EXPENSES	<u>1,245,774</u>	<u>1,375,479</u>
Operating Loss	<u>(1,129,939)</u>	<u>(1,260,811)</u>
NON-OPERATING REVENUES (EXPENSES):		
Local	382,254	358,946
State and federal	<u>757,378</u>	<u>661,638</u>
Total Non-Operating Revenues	<u>1,139,632</u>	<u>1,020,584</u>
INCREASE (DECREASE) IN NET ASSETS	9,693	(240,227)
NET ASSETS, beginning of year	<u>1,446,808</u>	<u>1,687,035</u>
NET ASSETS, end of year	<u>\$ 1,456,501</u>	<u>\$ 1,446,808</u>

The accompanying notes are an integral part of this statement.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 119,285	\$ 111,085
Cash payments to supplies and employees	<u>(999,585)</u>	<u>(1,191,015)</u>
Net cash used in operating activities	<u>(880,300)</u>	<u>(1,079,930)</u>
CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:		
Local tax levy received	356,222	342,999
State of Michigan – Single Business Tax – inventory rebate	6,359	1,590
Other miscellaneous revenue	2,684	
Operating grants received	<u>565,274</u>	<u>649,901</u>
Net cash provided by non-capital financing	<u>930,539</u>	<u>994,490</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets		(352,867)
Proceeds from sale of fixed assets	1,614	1,669
Capital grants received		<u>325,614</u>
Net cash provided by capital and related financing activities	<u>1,614</u>	<u>(25,584)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	<u>15,375</u>	<u>10,251</u>
NET INCREASE (DECREASE) IN CASH	67,228	(100,773)
CASH, beginning of year	<u>470,825</u>	<u>571,598</u>
CASH, end of year	<u><u>\$ 538,053</u></u>	<u><u>\$ 470,825</u></u>

The accompanying notes are an integral part of this statement.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
RECONCILIATION OF OPERATING LOSS TO NET
CASH USED IN OPERATING ACTIVITIES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating loss	\$ (1,129,939)	\$ (1,260,811)
Adjustments to reconcile operating loss to net cash provided		
By operating activities:		
Depreciation	205,034	197,648
Accounts receivable	3,450	(3,583)
Inventories	(386)	1,241
Prepaid expenses	130	(41)
Accounts payable	42,682	4,218
Accrued expenses	(4,466)	(11,287)
Accrued sick and vacation pay	3,195	(7,315)
Total adjustments	<u>249,639</u>	<u>180,881</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (880,300)</u>	<u>\$ (1,079,930)</u>

The accompanying notes are an integral part of this statement.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: DESCRIPTION OF THE REPORTING ENTITY

The Charlevoix County Public Transit is a fund of Charlevoix County. Its operations are funded primarily by property tax revenues, operating grants from Federal and State agencies and fare box fees. The Public Transit has the capability and the authority to provide public transportation to the general public in Charlevoix County. The activities of the Public Transit are governed by a committee appointed by the Charlevoix County Board of Commissioners.

NOTE 2: DESCRIPTION OF FUND

Enterprise Fund

This fund accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Charlevoix County Public Transit conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting

Charlevoix County Public Transit follows the accrual basis of accounting. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Cash

Cash is maintained by the County Treasurer in a common cash account with other County funds.

Inventories

Inventories of replacement parts are valued at the lower of cost or market. Office supplies are not included in inventories.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fixed Assets & Depreciation

Fixed assets are stated at cost or fair market value at date of gift. The minimum capitalization policy of the State of Michigan for Transit agencies is \$5,000. Fixed assets with costs less than \$5,000 are charged to expense. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterment, when significant in amount, are capitalized. Provisions for depreciation of equipment are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives.

Bad Debts

Charlevoix County Public Transit does not use the allowance for bad debt method since all receivables are deemed collectible.

NOTE 4: PROPERTY & EQUIPMENT

Major classes of property and equipment consist of the following:

Business-type activities	Balance 09/30/04	Increases	Decreases	Balance 09/30/05
Capital assets, not being depreciated				
Land	\$	\$	\$	\$
Capital assets, being depreciated				
Buildings	\$ 656,373			\$ 656,373
Vehicles	1,040,291		63,452	976,839
Bus and garage equipment	197,260			197,260
Furniture, fixtures and equipment	40,381			40,381
Total capital assets being depreciated	1,934,305		63,452	1,870,853
Less accumulated depreciation for:				
Buildings	402,908	32,809		435,717
Vehicles	538,713	150,517	63,452	625,778
Bus and garage equipment	124,389	21,708		146,097
Furniture, fixtures and equipment	40,381			40,381
Total accumulated depreciation	1,106,391	205,034	63,452	1,247,973
Total capital assets, being depreciated, net	827,914			622,880
Business-type activities capital assets, net	\$ 827,914			\$ 622,880

**CHARLEVOIX COUNTY PUBLIC TRANSIT
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: PROPERTY & EQUIPMENT – Continued:

	<u>Purchased with Public Transit Funds</u>	<u>Purchased with Capital Grants</u>	<u>Total</u>
September 30, 2005			
Buildings	\$ 196,334	\$ 460,039	\$ 656,373
Vehicles	112,694	864,145	976,839
Bus and garage equipment	65,190	132,070	197,260
Furniture, fixtures and equipment	<u>15,990</u>	<u>24,391</u>	<u>40,381</u>
	390,208	1,480,645	1,870,853
Less accumulated depreciation	<u>256,172</u>	<u>991,801</u>	<u>1,247,973</u>
Net Property and Equipment	<u><u>\$ 134,036</u></u>	<u><u>\$ 488,844</u></u>	<u><u>\$ 622,880</u></u>

	<u>Purchased with Public Transit Funds</u>	<u>Purchased with Capital Grants</u>	<u>Total</u>
September 30, 2004			
Buildings	\$ 196,334	\$ 460,039	\$ 656,373
Vehicles	138,145	902,146	1,040,291
Bus and garage equipment	65,190	132,070	197,260
Furniture, fixtures and equipment	<u>15,990</u>	<u>24,391</u>	<u>40,381</u>
	415,659	1,518,646	1,934,305
Less accumulated depreciation	<u>243,480</u>	<u>862,911</u>	<u>1,106,391</u>
Net Property and Equipment	<u><u>\$ 172,179</u></u>	<u><u>\$ 655,735</u></u>	<u><u>\$ 827,914</u></u>

Depreciation is computed on a straight-line method for all assets. Depreciation expense for the years 2005 and 2004 was \$205,034 and \$197,648, respectively.

The land which was used to place the Public Transit facility on was donated by the Charlevoix County Road Commission to the County and is not reflected on the Public Transit records.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
NOTES TO FINANCIAL STATEMENTS**

NOTE 5: RETIREMENT PLAN

The employees of the Public Transit are covered under the County's pension plan with the State of Michigan Municipal Employees Retirement System.

The County contributed 17.10 percent of covered gross payroll for 2005 which were included in the General Fund's pension cost.

Other pension information as required by GASB No. 5 is not available since the Public Transit employees are covered under the overall County pension plan.

NOTE 6: VACATION & SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly, not to exceed a total accumulation of 30 days in a one year period, and up to 10 days may be carried over.

Sick leave is accumulated at the rate of one day for each month of service, not to exceed a total accumulation of 65 days.

Vacation pay is payable at 100 percent to employees when they terminate employment.

Sick pay is payable to employees when they leave employment to a maximum of 25 percent of the remaining accumulated sick leave up to a maximum of 65 days.

Vacation or sick leave utilized during the year is recorded as current fringe benefit expenditures. At year end, each employee's accumulated leave is computed by applying his current (year end) rate of pay times total accumulated hours. The composite dollar total for all employees is entered as the accrued liability by an applicable adjusting entry posted to the liability and expenditure account.

Vacation and sick leave accrued and expensed for the fiscal year ended September 30, 2005 and 2004 resulted in an increase (decrease) to expense of \$3,195 and \$(7,315), respectively.

**CHARLEVOIX COUNTY PUBLIC TRANSIT
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEPOSITS & INVESTMENTS

All cash and investments are maintained by the County Treasurer in common cash and investment accounts, except as noted below. Because of the use of common funds, the Public Transit's funds cannot be distinguished from other funds. The County Treasurer does allocate a portion of interest earned to each fund based upon its proportionate share of the cash balances that are invested. The County Treasurer had funds invested in institutions at September 30, 2005 and 2004, which provided insurance in amounts in excess of funds held for Transit. Investments were made during the period by the County Treasurer in certificates of deposit, money market accounts and with investment trust funds.

For purposes of cash flows, the Public Transit considers all short-term debt securities purchased with a maturity of three months or less from the year-end to be cash equivalents. At the end of the year, a \$200,000 Certificate of Deposit was held with a maturity of less than three months.

NOTE 8: PROPERTY TAX LEVY COLLECTED IN 2005

<u>Mills</u>	<u>Adjusted Levy</u>	<u>Tax collections and purchased By County</u>	<u>IFT & CFT Collections</u>	<u>Unpaid personal</u>
.2461	\$ 418,341	\$ 393,548	\$ 2,577	\$ 1,874

The IFT and CFT amounts are not included in the adjusted levy.

Taxes lost to the Cities of Charlevoix and Boyne City through the DDA and TIFA amounted to \$10,014. The 2004 Taxable Value for the County is \$1,699,882,161.

The property taxes are collected by local treasurers with the taxes becoming due and payable on December 1st of each year and payable without penalty through February 15 (or 28th), as the case may be, by option of each local unit. Taxes are returned to the County Treasurer for collection on or about March 1st of each year.

The County Treasurer purchases all uncollected real taxes in May. The Treasurer pays over to the Public Transit all current and delinquent real property taxes and all accumulated current personal property taxes in May or June of each year. All unpaid personal property taxes are paid to the Public Transit on a monthly basis as they are collected.

CHARLEVOIX COUNTY PUBLIC TRANSIT NOTES TO FINANCIAL STATEMENTS

NOTE 10: INSURANCE POOL

During the year ended September 30, 1988, Charlevoix County Public Transit and eighteen other transportation authorities formed the Michigan Transit Pool (MTP). There are two insurance programs offered by MTP. Charlevoix County Public Transit participates in both the Direct Property Damage Program, which is a self-insured fund providing insurance coverage for physical damage and comprehensive losses to the Authority's fleet of vehicles, and the Michigan Transit Pool Liability Trust Fund providing general liability coverage.

The Direct Property Damage Program directly allocates losses incurred by a member between \$2,000 (the amount of the per-occurrence deduction) and \$10,000 (the risk-shared threshold). Risk shared losses include losses above the \$10,000 not covered by excess reinsurance. Risk shared losses will be allocated between all members participating in the collision and primary comprehensive coverage program based upon a member's average book value divided by total participating average book value, multiplied by the total amount of risk shared losses. The actual calculation of risk-shared losses will extend beyond the fiscal year-end to encompass expenses incurred to close all claims for the policy period. In the event of excess losses, all pooled losses will first be paid out of initial deposits. Should losses exceed this amount, the contingency margin will be used to pay losses. In this event, all systems will be billed the amount necessary to replenish the contingency margin within thirty (30) days.

Each authority contributes to the Liability Trust Fund an annual premium which is determined on an actuarial method based upon the Authority's vehicle hours, vehicle miles and number of passengers for the preceding year. During the initial year of the pool, the Authority also contributed to the Contingency Reserve of the pool, which was intended to be a one time payment. Claims less than \$50,000 are deducted directly from the applicable Authority's premium deposit. Claims over \$50,000 are paid out of a pool in which all authorities participate. Each authority is credited with interest earned on its premium deposit and is charged for its share of claims as well as administrative expenses. If a refund or additional premium is due to/from the Authority, such adjustment will be made approximately six months after the pool's fiscal year-end of November 30.

NOTE 11: CONTINGENCIES

The Michigan Department of Transportation has been inquiring about the cost allocation plan between the Public Transit and Regional Transit. It is the opinion of the Department of Transportation that the cost allocation plan based on mileage of the two transits was improper. Charlevoix Public Transit has made an appeal to the Department of Transportation, and would like to retroactively amend the cost allocation plan to be based on actual expenses. If the Department of Transportation does not accept the appeal, Charlevoix Public Transit could be required to repay approximately \$300,000. As of September 30, 2005, no amount has been recorded since a final resolution has not been accepted.

NOTE 12: RECLASSIFICATION OF AMOUNTS

Certain amounts previously reported have been reclassified to conform to the 2005 presentation.

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

Our report on our audit of the financial statements of Charlevoix County Public Transit appears on page 2. That audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Charlevoix County Public Transit. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.


Certified Public Accountants

Traverse City, Michigan
November 28, 2005

SCHEDULE 1

**CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Operating Revenues:		
Demand-response:		
Passenger fares	\$ 54,311	\$ 57,723
Special fares	<u>61,524</u>	<u>56,945</u>
TOTAL OPERATING REVENUES	<u>\$ 115,835</u>	<u>\$ 114,668</u>

SCHEDULE 2

**CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2005
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2004**

	Operations	Maintenance	General Administration	Total 2005	Total (Memorandum Only) 2004
Labor:					
Operating salaries and wages	\$ 259,680	\$	\$	259,680	\$ 296,275
Other salaries and wages		86,920	79,373	166,293	164,703
Dispatch salaries	48,481			48,481	64,746
Fringe benefits	202,394	54,464	47,747	304,605	396,049
Services					
Advertising/promotion expense	5,510			5,510	4,360
Other services	396		5,665	6,061	5,770
Materials and supplies consumed:					
Fuel and lubricants	66,977			66,977	57,910
Tires and tubes	3,115			3,115	3,379
Other materials and supplies	38,980	20,236	1,966	61,182	68,923
Utilities	12,942	1,827	1,386	16,155	16,085
Casualty and liability cost:					
Liability and property damage insurance	74,900			74,900	59,516
Worker's compensation	6,728	693	680	8,101	32,191
Miscellaneous expenses:					
Travel	146		886	1,032	2,146
Association dues			1,753	1,753	1,547
Other miscellaneous expense	5,182		11,713	16,895	4,231
Depreciation	123,020	24,601	57,410	205,034	197,648
TOTAL EXPENSES	<u>\$ 848,451</u>	<u>\$ 188,744</u>	<u>\$ 208,579</u>	<u>\$ 1,245,774</u>	<u>\$ 1,375,479</u>

SCHEDULE 3A**CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULES OF NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
Property taxes	\$ 356,222	\$ 342,999
Interest Income	15,375	12,719
Gain on sale of fixed assets	1,614	1,638
State of Michigan Single Business Tax Return on Inventory	6,359	1,590
Miscellaneous refunds and reimbursements	<u>2,684</u>	
 TOTAL NON-OPERATING REVENUE – LOCAL	 <u>\$ 382,254</u>	 <u>\$ 358,946</u>

SCHEDULE 3B

**CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULES OF NON-OPERATING REVENUES
YEARS ENDED SEPTEMBER 30, 2005 AND 2004
(continued)**

	<u>2005</u>	<u>2004</u>
State of Michigan operating grants:		
Local bus operating assistance (Act 51)	\$ 408,798	\$ 511,802
Local bus operating adjustments – prior years	<u>182,457</u>	<u>(9,016)</u>
Total State of Michigan operating grants	<u>591,255</u>	<u>502,786</u>
Federal operating grants		
U.S. DOT operating grant – Section 5311		
Contract 02-0027/Z9/R1	131,176	
Contract 02-0027/Z7		132,072
Contract 02-0027/Z4	24,264	
Contract 02-0027/Z1		24,445
Contract 02-0027/Z3	7,248	
R-TAP expense reimbursement	<u>3,435</u>	<u>2,335</u>
Total Federal operating grants	<u>166,123</u>	<u>158,852</u>
TOTAL NON-OPERATING REVENUES - STATE AND FEDERAL	<u>\$ 757,378</u>	<u>\$ 661,638</u>

SCHEDULE 4

**CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2005**

	<u>Section 5311</u>	<u>Operating Assistance</u>
Expenses:		
Labor	\$ 474,454	\$ 474,454
Fringe benefits	304,605	304,605
Services	11,571	11,571
Materials and supplies	131,274	131,274
Utilities	16,155	16,155
Casualty and liability insurance	83,001	83,001
Miscellaneous expenses	19,680	19,680
Depreciation	<u>205,034</u>	<u>205,034</u>
TOTAL EXPENSES	<u>1,245,774</u>	<u>1,245,774</u>
Less ineligible expenses:		
Depreciation:		
Grant assets	166,890	166,890
Excess of grant – noneligible	4,577	4,577
R-TAP (unreimbursed)	3,435	3,435
Audit fees	5,665	
Maintenance grant	7,248	7,248
Dues	<u>84</u>	<u>84</u>
Total ineligible expenses	<u>187,899</u>	<u>182,234</u>
NET ELIGIBLE EXPENSES	<u>1,057,875</u>	<u>1,063,540</u>
Maximum Section 5311 reimbursement 12.40%	<u><u>\$ 131,176</u></u>	
Maximum State operating Assistance 38.437574823% of eligible expenses		<u><u>\$ 408,798</u></u>

SCHEDULE 5

**CHARLEVOIX COUNTY PUBLIC TRANSIT
MILEAGE DATA
YEAR ENDED SEPTEMBER 30, 2005**

	<u>Public Transportation Mileage</u>
DEMAND RESPONSE	
First quarter	87,419
Second quarter	87,021
Third quarter	82,807
Fourth quarter	<u>78,559</u>
TOTAL DEMAND RESPONSE	<u><u>335,806</u></u>

Note:

The methodology for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

CHARLEVOIX COUNTY PUBLIC TRANSIT
SCHEDULE OF FINANCIAL ASSISTANCE
FEDERAL AND STATE
YEAR ENDED SEPTEMBER 30, 2005

Federal grantor/Pass through grantor Program title	Federal CFDA Number	State Grantor Number	Program or Award Amount	Beginning Receivable/ (Deferral)	Receipts	Disbursements	Adjustments	Ending Receivable/ (Deferral)
<u>U.S. Department of Transportation</u> <u>Passed through MDOT:</u>								
Operating assistance Section 5311	20.509	02-0027/Z9/R1	\$ 131,176	\$	\$ 98,573	\$ 131,176	\$	\$ 32,603
Operating assistance Section 5311	20.509	02-0027/Z7	132,072	27,897	7,923			19,974
Operating assistance Section 5311	20.509	02-0027/Z4	87,050	640			24,264	24,904
Operating assistance Section 5311	20.509	02-0027/Z1	84,450	24,445	24,445			
Operating assistance Section 5311	20.509	01-0022	100,434	(632)				(632)
R-TAP Training	20.509	N/A	3,500		1,495	3,435		1,940
Capital Grant Section 5309	20.500	02-0027/Z3	123,754		6,802	7,248		446
TOTAL FEDERAL ASSISTANCE			\$ 662,436	\$ 52,350	\$ 139,238	\$ 141,859	\$ 24,264	\$ 79,235
<u>Michigan Department of Transportation</u>								
Operating assistance Act 51		2005	408,798		426,037	408,798		(17,239)
Operating assistance Act 51		2004	511,802	79,413			7,085	86,498
Operating assistance Act 51		2003	449,655	56,242			38,300	94,542
Operating assistance Act 51		2002	449,545	9,929			85,100	95,029
Operating assistance Act 51		2001	333,373	(49,813)			51,972	2,159
TOTAL STATE OF MICHIGAN ASSISTANCE			\$ 2,153,173	\$ 95,771	\$ 426,037	\$ 408,798	\$ 182,457	\$ 260,989



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 28, 2005

To the Transit Committee
Charlevoix County Public Transit

We have audited the financial statements of the Charlevoix County Public Transit, an enterprise fund of Charlevoix County, Michigan, as of and for the year ended September 30, 2005, and have issued our report thereon dated November 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charlevoix County Public Transits' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Charlevoix County Public Transits' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Transit Committee, management, the Urban Mass Transportation Administration, and the Michigan Department of Transportation (MDOT) and is not intended to be and should not be used by anyone other than these specified parties.

Harris Group
November 28, 2005

**CHARLEVOIX COUNTY PUBLIC TRANSIT
SUPPLEMENTARY SCHEDULE OF INELIGIBLE COSTS
YEAR ENDED SEPTEMBER 30, 2005**

<u>Program</u>	<u>Description of Ineligible Costs</u>	<u>Ineligible Cost</u>
Urban Mass Transportation Administration		
A) Operating Grants 02-0027	1) Depreciation: Deprecation accrued on assets purchased with Contributed capital must be deducted as an ineligible expense.	\$ 166,890
	Depreciation on unreimbursed grant assets.	4,577
	2) R-TAP unreimbursed expenses are ineligible	3,435
	3) Expenses on maintenance grant	7,248
	4) Ineligible portion of association dues	<u>84</u>
	TOTAL INELIGIBLE EXPENSES FOR STATE OPERATIONS	182,234
	5) Audit fees are ineligible for Section 5311	<u>5,665</u>
	TOTAL INELGIBLE EXPENSE FOR SECTION 5311	<u>\$ 187,899</u>